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COMMUNIST ECONOMIC DIPLOMACY IN THE UNDERDEVELOPED AREAS

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TABLE OF CONTENTS

TABLE 1

Abstract

Since mid-1953, the Soviet bloc has actively promoted its external economic relations with the underdeveloped areas, and this effort has proceeded with increasing momentum. The bloc has the ability to expand this program to several times its current level, but present magnitudes and indications of intent point more to a gradual increase. These activities are securing the acceptance of a peaceful image of the USSR, and upsetting at crucial points arrangements and relationships of the West. It is most unlikely, however, that this economic diplomacy can, or is intended to, gain for the USSR an operative control over target countries. It must be viewed as one element in the larger fabric of current Soviet policy. It is one of the means by which the USSR is now seeking to attract Free World areas into an orientation more favorable to itself and thus, while it avoids risk of general war, to weaken the West through political, economic, and psychological action.

An expansion of trade with the underdeveloped areas is appropriate at the present stage of Soviet economic development, in which it becomes increasingly profitable for the Soviet bloc to export manufactured goods in exchange for industrial raw materials and foodstuffs.

More importantly, the bloc's economic overtures are already obtaining political credit and propaganda advantages, to judge from the enthusiastic response of many countries. The image of the bloc as a peaceful trader has undoubtedly reinforced existing neutralist tendencies, particularly in Asia. Some of these bloc gains may be temporary. Diminishing returns very probably will set in as time dims the novelty of the bloc's activities and brings the inevitable disappointments and frictions. Nonetheless, in this field the bloc may well benefit from the advantage it has in the predisposition of intellectual leaders in many Asian countries against capitalism and other features of Western culture.

Bloc economic diplomacy can, at the same time, exploit individual situations where the plans and programs of the Western powers may be upset or interfered with. The device has visibly exacerbated the Arab-Israeli, Kashmir, and Pushtunistan problems. It may be expected that the USSR will continue to seek opportunities thus to concentrate its new diplomacy on vulnerable areas.

Bloc economic overtures, furthermore, offer an excellent means for influencing government officials and intellectual leaders by direct personal contact. It is unlikely, however, that the Soviets will go beyond this kind of ideological penetration to exploit opportunities for infiltration, subversion or other covert activities, which would obviously endanger the whole propaganda value of their program.

The extent to which the bloc can employ economic pressures and inducements to obtain manipulative control over the foreign or domestic policies of underdeveloped countries appears to be limited. Recent history shows that, while economic considerations may contribute to securing influence for one country over another, additional factors have almost always been essential to the process. In the absence of favoring considerations such as power relationship, domestic tension, or international rivalries, economic forces hardly have decisive effect.

I. INTRODUCTION

Since mid-1953 there has been a gradual increase in Soviet bloc efforts to expand economic relations with non-Communist underdeveloped regions. These efforts have acquired considerable momentum in the past year. In contrast with its earlier -- largely propagandistic -- economic offensives, the present Communist drive gives evidence of having considerable substance. The bloc has been actively seeking to conclude trade arrangements involving the exchange of Soviet and satellite machinery and equipment for the foodstuff and raw material surpluses of the underdeveloped areas. Long-term credits at favorable terms are being offered to non-bloc countries for the first time and even small amounts of grant assistance.

This new and unprecedented Soviet bloc policy, though still modest in scope, must be examined to determine whether it is in fact a serious threat to the position of the West in the underdeveloped areas. Will the Soviet bloc's economic offensive prove to be a highly effective weapon in furthering neutralist, anti-Western tendencies in the target countries and eventually subverting their independence?

This study attempts to assess the nature of the Soviet threat. In particular it briefly describes the main elements in the Soviet economic diplomacy, analyses the relation of these moves to Soviet economic considerations, offers certain observations as to the possible advantages the bloc may expect from these actions, and finally attempts to relate the new policy to the whole fabric of Soviet foreign policy.

II. CHARACTER AND SCOPE OF THE BLOC ECONOMIC OFFENSIVE

The character and scope of the Communist bloc's economic offensive have been covered in detail in a number of other studies and therefore will be summarized only briefly here:

(a) The principal targets of the new diplomacy have been the uncommitted countries of Asia and Africa, like Egypt, India, Burma and Afghanistan. In addition, overtures have been made to military pact countries like Turkey, Pakistan, and Japan in an effort to detach them from the West by offers of economic aid and increased trade. Attempts have also been made to expand trade with other Latin American countries, especially Argentina, Uruguay, and Brazil.

(b) Grant aid is of negligible importance, being limited to small amounts of technical assistance, invitations to students, and technical study tours.

(c) Long-term loans are being offered at low interest rates to finance dramatic development projects to which the underdeveloped countries attach great political and economic importance.

(d) Major emphasis has been placed on the negotiation of bilateral trade and bulk purchase agreements. The attractiveness of the bloc's efforts in this direction has been increased by its willingness from time to time to take exportable surpluses like cotton and rice from distressed sellers and to provide capital goods in exchange.

(e) The European Soviet bloc has played the leading role; Communist China has cooperated, but aside from trade and other normal commercial dealings, its activities have been on a relatively small scale.

(f) A parallel program of arms sales has supplemented the economic offensive in a number of countries.

The magnitudes involved in the bloc's aid efforts are still relatively small. Credits extended by the bloc from January 1954 to March 15, 1956 aggregate about $615 million, of which only a small fraction consists of contracts reported to have been concluded. By contrast US non-military assistance to underdeveloped countries in the postwar period (to December 31, 1955) totals about $9 billion. In fiscal year 1956, US non-military aid programs under MSP for all underdeveloped areas totalled about $1.5 billion, of which about 45 percent was scheduled for the Republic of Korea, Taiwan, Vietnam, Laos, and Cambodia.

Interest rates on Soviet bloc loans of 2 to 3 percent are considerably below the 4 or 5 percent charged by international lending agencies like the IBRD or on other government-to-government loans. In most cases payment of interest and amortization can be made either in local currency or goods.

Three countries, Afghanistan, India, and Yugoslavia account for more than 85 percent of the credits extended. Yugoslavia alone accounts for about $300 million of the total. The only country in the Western hemisphere to which credit has been extended is Argentina. The bulk of the credits were offered by the USSR, the remainder by the European satellites.

Despite the bloc's expanded trade and aid arrangements, few underdeveloped areas conduct more than 5 percent of their trade with the bloc (see Table 1). There have, however, been some significant increases in trade with the bloc over the past two years, notably in the case of Burma, Egypt, Indonesia, Afghanistan, Turkey, and Yugoslavia. Further gains will undoubtedly be registered as trade begins to move under recently signed trade agreements. Furthermore, since this trade in some countries represents a large share of the output of major foodstuffs and raw materials, its importance to the underdeveloped areas is greater than the overall percentages suggest. The alternative uses for the resources employed to produce these commodities are quite limited in the short run.

III. FOREIGN TRADE IN THE SOVIET ECONOMY

An expansion of economic relations with the underdeveloped areas is appropriate at the present stage of Soviet economic development. The bloc economy is becoming increasingly complementary to the economies of the underdeveloped areas; industrialization has progressed to the point where it has substantial capabilities to export capital equipment and technical services at competitive prices. Indeed, the European Soviet bloc's industrial capacity is roughly two-thirds that of all of Western Europe. Its production of most types of machine tools is reckoned to be as large as that of the United States and is of generally comparable quality.

More importantly, there is mounting evidence that bloc production of foodstuffs and industrial raw materials faces rising relative costs. Under these circumstances exchange of industrial equipment for the raw material exports of the underdeveloped areas, whether or not financed by Soviet bloc credits, would offer real economic benefits to the bloc.

The current economic offensive can hardly jeopardize the bloc's domestic investment and armament goals. Not only is the scale of bloc economic assistance relatively modest, but the bulk of the assistance consists of loans which are repayable with interest. Thus the bloc's economic offensive, if it follows the present pattern, will involve only a small and temporary diversion of resources.

The Soviet view of foreign trade appears to be changing. Historically the Soviet bloc has deliberately foregone much of the economic advantage to be derived from foreign trade, not only for strategic reasons but also partly from a disregard for the economic gains that accrue from an international division of labor. There is now some evidence that Soviet economists are placing increasing stress on the advantages of at least an intra-bloc division of labor. At the twentieth Party Congress, for example, Deputy Premier Mikoyan made a statement, unique in recent Soviet pronouncements, on the need for a "universal division of labor," based on the principle that "it is not equally profitable to turn out all forms of production in all countries." Where Soviet propaganda in the thirties spoke of liberating the USSR from the need for imports, since roughly 1950 the emphasis has been on expanding trade between members of the so-called Eastern world market.

Soviet planners probably believe that the economic structure of the bloc is now sufficiently strong to run little strategic risk in attempting to capitalize on the opportunities for expanded trade between the "Eastern world market" and certain of the underdeveloped areas. The Soviet bloc has considerable latitude within which to expand trade with the Free World without jeopardizing its security interests. Imports from the Free World in 1955 of less than $2.0 billion are low in relation to production, representing less than 1 percent of the European Soviet bloc's gross national product.

Table 1. PERCENTAGE OF SINO-SOVIET BLOC TRADE TO TOTAL TRADE OF SELECTED UNDERDEVELOPED COUNTRIES, 1954-1955

Country	1954	1955	Period of 1955
A. South Asia and the Far East			
Burma	.7	5.3	12 months
Ceylon	11.9	6.1	11 months
Hong Kong	18.9	17.3	12 months
India	1.3	1.1	9 months
Indonesia[a]	1.6	5.2	10 months
Malaya	2.5	2.2	12 months
Pakistan	5.6	6.7	9 months
Philippines	.1	insig.	12 months
B. Europe			
Finland	28.3	26.4	12 months
Yugoslavia	1.8	9.9	12 months
Iceland	21.1	24.5	12 months
C. Near East and Africa			
Iran[a]	12.6	12.9	Jan. 21-Oct. 23
Egypt	9.7	14.1	10 months
Sudan	4.7	3.2	6 months
Israel	4.3	1.9	9 months
Syria	1.5	1.7	6 months
Lebanon	1.9	2.0	6 months
Jordan	3.0	n.a.	
Iraq[a]	1.5	3.5	6 months
Turkey	12.0	20.0	12 months
D. Latin America			
Argentina	8.6	8.6	6 months
Brazil	1.3	3.0	10 months
Uruguay	5.0	3.4	6 months

a. Excludes petroleum exports from Indonesia and Iraq. For Iran petroleum shipments negligible in 1954; they are included in the first two months of the 1955 data but excluded thereafter.

If imports were tripled they would still represent less than 3 percent of the bloc's current production, or roughly the percentage of imports to production in the United States. An economy with the resources, technical and managerial skills, and industrial facilities of the bloc could with proper safeguards such as stockpiling arrangements and the like, readily accommodate itself to the loss of such supplies in the event of war. Such adjustment to loss of imports would be incomparably easier for the Soviet bloc than it was for Germany in World War II.

A tripling of the current level of its imports could result in the Soviet bloc engrossing a large share of the trade of the underdeveloped areas. Total merchandise exports, excluding petroleum, of the independent underdeveloped countries on the arc of Asia from South Korea around to Turkey aggregated less than $5.5 billion in 1955. Moreover, these exports are of a kind and variety for which the European Soviet bloc alone, with its more than 300 million people and growing food and industrial raw material needs, will experience rapidly rising requirements.

This is not to suggest that a quick increase in the level of Soviet bloc trade with the underdeveloped areas is an immediate prospect. The current bloc emphasis on expanding domestic production of foodstuffs and industrial raw materials casts doubts on this possibility. The most likely outlook is that the overall expansion of trade will be fairly gradual and will be concentrated on countries where maximum political gains can be achieved. The role of Communist China in the Sino-Soviet bloc's economic offensive, will be largely confined to the trade sphere; with respect to aid and credits, Communist China's activities will probably continue to be small in view of that country's limited economic capabilities and preoccupation with its own internal economic development.

The fact that some of the raw materials which the underdeveloped countries are trying to dispose of are also surplus to the bloc need not circumscribe the bloc's opportunities for gaining by trade with these areas. The Soviet bloc has, for example, been making large scale purchases of Egyptian cotton even though it is self-sufficient in raw cotton and exporting Russian grown cotton to non-Communist markets. There are even reports that some of this Egyptian cotton is being offered for resale at a discount in Western Europe. Such switching operations could also assist the bloc in balancing its trade accounts with other areas, but they cannot be conducted on a grand scale without arousing the ill-will of the producing countries.

IV. THE ROLE OF ECONOMIC POLICY IN COMMUNIST STRATEGY

While considerations of economic advantage could conceivably explain the decision to expand the external economic contacts of the Soviet bloc, there remains a profound belief that basically these activities are primarily and directly designed to increase the power and further the expansion of Soviet Communism.

Both official and other accounts of economic warfare in and since World War II have given rise to somewhat exaggerated impressions of what can be accomplished in international affairs by such measures. Because some countries (e.g. the UK or Japan) are vulnerable to interruption of raw materials supplied from overseas, foreign trade is equated with economic dependence. Because Hitler manipulated the clearing accounts of Balkan countries and planted agents posing as salesmen or businessmen in the Middle East, economic contacts are pictured as invariably offering an aggressor unequalled opportunities for large scale bribery, infiltration and subversion. And in the postwar period great importance has been attached by practically all non-Communist countries to high levels of foreign trade and rapid rates of economic growth as somehow essentially related to maintaining "political stability," i.e. to preventing a Communist takeover. In short the view that political relations and events are determined by underlying economic relations and events has gained wide currency. Economic factors are viewed as playing an independent role, capable of uniquely altering or modifying political relationships, institutional patterns, and popular attitudes in a predictable way.

Accordingly economic policy and economic warfare have come to play very large roles in diplomacy and strategy, and it is necessary and reasonable to ask what results have been and can be achieved thereby even when allowance is made for many other uncontrolled variables in each situation. In particular is this true when dealing with Communist strategy, which combines in its service all the machinery of the Soviet state for controlling and manipulating its external economic dealings, an unparalleled organization of agents and propagandists in many foreign countries, and a purposeful opportunism which frequently subordinates economic relations to political and strategic ends.

For the purpose of this paper, economic diplomacy is divided into five categories of ways in which trade, credits, and economic and technical assistance may be used to influence the direction of either internal or external political affairs of another country:

a. to bring about fundamental changes in the economic and ultimately the political, social and institutional life of a community which are thought to be desirable from the point of view of the country giving the assistance. This is basically the Point Four -- Colombo Plan approach of Western countries.

b. to develop diplomatic and cultural contacts, to "win friends and influence people," and to perform other propaganda functions. This is economic penetration on the ideological level.

c. to create economic dependence through trade and make the other country politically subservient, or at least susceptible to outside economic pressures designed to change the policies and alignments of the country; this usually involves exploitation of special interest groups such as traders, industrialists or labor unions.

d. to disrupt policies and arrangements of other powers, e.g. by giving arms to one country (Egypt) to upset the local balance of power and encourage it to adopt a more independent course of action.

e. to plant agents and spies, to finance Communist party activities, to expand covert influence in domestic political and official circles. This is penetration in the "cloak and dagger" sense.

There are probably a number of other types of politically motivated external economic activities, such as giving economic aid to assist an allied country to build up its military establishment, making loans to finance the development of raw material supplies, preclusive buying, etc., but the above listing seems to be sufficiently inclusive for the purpose of analyzing current Soviet economic diplomacy. It seems probable that recent Soviet actions fall into one or more of these five categories. For example, India and Afghanistan have received offers of substantial credits which may be intended to facilitate "cultural" contacts and to acquire influence for Soviet representatives in official circles. Purchases of surplus rice and cotton may be intended both for propaganda effect and to build up dependence. Technical assistance may be used to establish a preference among government officials for Soviet as against Western institutional patterns. Several countries, Finland, Iceland, Afghanistan, Turkey and Egypt would fall into the third category, of countries that seem to have developed a degree of dependence on Soviet trade that might make them susceptible to pressure in the absence of counterbalancing Western action. All these purposes seem to be present in greater or less degree. The important question is how effective are the measures adopted likely to be. Soviet trade in France and Italy is frequently handled by Communist dominated firms and profits of these firms are used to finance party activities.

A. Economic Development and Social Change

One possibility is that the Soviets give economic assistance to underdeveloped countries for reasons similar to our own. By and large the economic aid programs of Western countries in underdeveloped regions aim to assist in producing economic -- and thus social, institutional and political -- changes in the communities receiving aid. The motivation is pretty much that of (a) above with a little bit of (b) thrown in. We believe that countries which are helped to make some progress in achieving their own development goals -- industrialization, higher living standards, etc. -- will be less likely to accept the radical solution to the economic development problem offered by Communism. And in the process, such peoples may come to think better of Western institutions of property, due process, civil liberties; etc. If there were any Communist counterpart to such a motivation, it would be formulated not in Western terms of achieving political stability through economic growth but in Marxist terms of promoting

political instability through economic change, e.d., of facilitating the transition from feudalism to bourgeois democracy and thus paving the way for the next and "higher" stage, the dictatorship of the proletariat, by developing a revolutionary situation.

This possibility must be dismissed not only for lack of evidence but because the Russian and Chinese Revolutions have taken place, the former in a largely, and the latter in an almost wholly, preindustrial, society. In any case it is extremely doubtful that the Soviet bloc countries plan on this basis to expand the size of their aid programs to levels which would significantly affect the ability of underdeveloped countries to attain even modest rates of economic growth, It is more than likely that Soviet economic planners regard the development problems of countries like India as insoluble except under totalitarian rule and will therefore wish to avoid taking any responsibility for the success or failure of present programs.

B. Propaganda Uses of Economic Relationships

Soviet policy probably aims less at producing measurable changes in the conditions of economic life than at exploiting individual situations for political credit and propaganda advantage, providing enough assistance from time to time to demonstrate their friendly intentions, on the theory that windfalls are always more welcome than the harvest which is expected. In other words, Soviet economic diplomacy as such is probably related to influencing a particular situation rather than at bringing about long run underlying changes. However, it has often been remarked that the long run is a series of short runs, and it is not implied here that, if successful, the Soviets will not continue to behave in this manner for a long period of time.

Judging by the enthusiatic response of a number of underdeveloped countries, particularly in Asia, to the bloc's economic overtures, this new policy has produced at least some temporary political and propaganda results. The image of the bloc as a peaceful trader and benefactor of development programs has become more credible to many Asians, particularly to strong nationalists and others with traditional antipathies toward the West. This new image undoubtedly reinforces existing neutralist tendencies in these countries. The enthusiasm of the underdeveloped countries also very probably reflects their belief that they now have greater bargaining power vis-a-vis the West in seeking economic aid.

An important element in the favorable response is the sheer novelty of the Soviet offers. This favorable initial reaction could prove difficult to sustain. If the present relatively low levels of trade and assistance merely are maintained, they will rather quickly come to be taken for granted. Thus, to maintain the gains of the initial impact may require either progressive expansion of the scope of the program, or the most

skillful propaganda treatment, or both. Soviet willingness to expend the time and energies of their two leading figures, Khrushchev and Bulganin, in a month long promotional junket through Sough Asia is an indication that they regard such propaganda devices as of at least equal importance with the aid and trade offers themselves.

Our own experience with economic aid in underdeveloped countries would argue for a certain scepticism in judging the probable propaganda results of the new Soviet policy of economic assistance. In these countries we have not so far succeeded with our economic aid in eradicating those differences in outlook which separate many of these countries from the West on a number of crucial foreign policy issues. Despite our aid, which was given in much larger amounts in many cases than any Soviet offers so far, a number of these countries remain "neutralist." It should not be hastily assumed, therefore, that the Soviets have laid hold of new weapons which will be much more effective in their hands than ours.

On the other hand, Soviet diplomacy has the advantage that in official circles and among intellectuals in many underdeveloped countries, especially in Asia, socialism is regarded as a more desirable institutional framework for economic development than capitalism. This is not alone because it may seem a more rapid road to industrialization, but also because it satisfies the value preferences of these groups better than the economic individualism of Western capitalism. Capitalism has also been ethically discredited among Asian intellectuals by its association with colonialism. For these reasons, the psychological and ideological effects of Soviet economic aid programs of comparable scale may be much more profound than has been the case with aid programs of Western countries.

C. Economic Pressures and Inducements

The most direct and most obvious method of economic diplomacy is to make offers of trade or economic assistance, either in return for some immediate diplomatic advantage or in order to make the other country, or powerful interests in it, dependent on the continuation of trade or aid and thus subject to manipulation for political ends. Recent Soviet approaches to Pakistan and Turkey show that the Soviet bloc is not above making such offers on the bluntest level of bargaining to undermine the alignment of such countries with the West.

Where Soviet trade patterns are modified or aid is extended for such purposes, the benefit to the other country may seem much greater to it than does the expense or inconvenience to the Soviet Union. Similarly, in the absence of collective Western countermeasures, the bargaining advantage is likely to be with the Soviet bloc if it chooses to threaten the other country with cutting off the relationship. This, as pointed out above,

is because of the economic magnitudes involved: the Soviet bloc, economically, is much bigger and stronger than any of the underdeveloped countries, and its trade is completely controlled by the state machinery.

Yet it must not be assumed from these considerations that this is an infallible method for influencing the conduct of the other country's foreign relations. It has its impact, no doubt, but this impact is so modified by other factors, many of them non-economic, that the exact effect of such manuevers is difficult to determine. Finland's foreign policy may have been influenced by the fact that the Soviet bloc has for some time accounted for between a quarter and a third of its trade. However, given its geographic position between the USSR and neutral Sweden, and the history of Soviet-Finnish relations since 1939, these relations might have been expected to be substantially what they are even without this degree of economic dependence.

Ceylon has in recent years depended very much on rubber-rice exchanges with Communist China and has been unable until recently to qualify (under the Battle Act) for American economic aid, but Ceylon's Prime Minister was one of the strongest pro-Western voices at the Bandung conference.

Afghanistan is frequently regarded as the clearest example of the potential effects of Soviet economic and commercial diplomacy, and one must concede that the Afghan Government has been opened to influence by Soviet credits and technical assistance, to say nothing of a considerable redirection of Afghanistan's trade to or through the USSR. But Afghanistan is a primitive, tribal, community with only the trappings of a modern state. Foreign trade is not very important to the welfare of most Afghans. The overwhelming presence of the USSR on its northern, ill-defined frontier and the prospect of Soviet support in connection with the Pushtunistan issue are more potent factors influencing Afghanistan's position in the cold war. On the other hand, the probability of adverse reactions by India, Pakistan, and other South Asian states limits the extent to which the USSR could in peacetime exploit this influence for expansionary aims.

Our own experience has demonstrated that closer economic relations with the underdeveloped areas can be a source of friction as well as political gain, and the Soviet bloc's new trade policy has already encountered problems of this kind. Indonesia is reported to be annoyed at Soviet resales outside the bloc of Indonesian copra. Similarly, Egyptian dissatisfaction with bloc reseals of cotton has been reported. Moreover, many underdeveloped countries are quite willing to disregard their economic intersts when they feel their national prestige is threatened. Where the United States has attempted to use economic aid or the promise of it to obtain cooperation in political matters, the effect has been in some cases counter-productive. Thus, it is clear that the connection between economic ties and political influence is by no means simple and direct.

In the event of a depression in the United States and Western Europe--which would have multiplied effects on prices, incomes and level or living in a number of Asian countries dependent on exports of foodstuffs, and agricultural and industrial raw matierals -- the uses of economic pressures and inducements would be much greater and more productive. In such a situation, these countries might find themselves in the position of Eastern European food exporting countries in the early and middle thirties. Before 1932, roughly only 15-20 percent of the trade of the Balkans was with Germany. By the late 1930's the share had increased to 40-50 percent.

The effect of this trade expansion was to create a sort of "commercial fifth column" in the Balkans with a major stake in creating and maintaining a friendly attitude toward Germany. This commercial group strongly supported Nazi political objectives. Its political orientation may have been much the same even apart from its economic self-interest, but there can hardly be any doubt that it was strengthened by Nazi policies catering to that interest.

The Balkan experience illustrates the peculiar vulnerability of underdeveloped countries to economic penetration in periods of depressed primary product prices. The economic well-being of most Balkan countries was heavily dependent on exports of two or three primary products. Consequently German offers to purchase these commodities at slightly above world market prices were highly attractive. Moreover, while trade with Germany became a large proportion of Balkan trade, it represented a much smaller proportion of Germany's trade. Thus, the threat of a stoppage of trade constituted much more of a threat to the Balkans than to Germany. Finally, no single Balkan political unit was capable of bargaining on an equal political and economic footing with Germany.

The above conditions alone, however, do not guarantee that economic dependence will promote political influence and control. Nazi Germany's efforts to exploit its economic position in Latin America for political purposes during the same period produced important but limited gains. In some parts of Latin America, as in the Balkans, the Germans, organized in well-entrenched communities, enjoyed strong positions in commerce,industry and finance. In a period of extensive economic maladjustments Germany, pursuing much the same tactics as in the Balkans, was able to expand its trade with Latin America, largely at the expense of the UK and the US. It even succeeded in certain countries to create a climate of political opinion favorable to itself. But its political influence was never sufficiently strong to transform these countries into its active allies. Moreover, German efforts to exploit its stronger economic position for political purposes eventually aroused strong local governmental countermeasures in a number of countries.

The difference between the Balkan and Latin American experiences illustrates the importance of geography as a factor in economic penetration. The fact that the Balkans were trapped between Germany and the USSR helps to explain why German economic diplomacy was so much more successful there. The effectiveness of economic policies in such instances cannot be separated from military, geographical, political, and other factors.

D. Disruption and Interference

In some cases Soviet aid or trade offers may be extended not in the hope of influencing the other country to align itself with the bloc or in order to get it to act in the bloc's interest but merely for the sake of having it not act in the interest of the West and thus frustrating -- or at least complicating -- the direction of Western policy. Thus the Soviets could probably not expect to make the Egyptians accept the leadership of the USSR in international affairs but by selling arms to Egypt could upset the local balance of power in the Middle East and make that country less responsive to Western efforts to bring about a settlement of the Arab-Israeli conflict. Essentially similar consideration may account for USSR support of India and Afghanistan against Pakistan in the Kashmir and Pushtunistan disputes. Less dramatically, Soviet offers of capital goods to Argentina and Brazil are probably not aimed at the unlikely goal of making those countries friendly to the USSR or Communism but rather simply at making them less dependent on, or responsive to, the United States.

There is probably a great deal of this kind of motivation in current Soviet economic diplomacy. The Soviets have learned one of the fundamental lessons of diplomacy, that of making haste slowly, of being satisfied with piecemeal gains where big results are unattainable. It is therefore to be expected that Soviet economic diplomacy will be active not only where there are possibilities of obtaining direct concessions, or immediate political advantages, or undoubted propaganda victories but, indeed, in any situations where the plans and programs of the Western powers can be upset, interfered with, or even rendered difficult to manage and uncertain of fulfillment.

E. Economic "Penetration"

There remains the possibility that Soviet bloc countries are cultivating closer economic relations with non-Communist countries in order more effectively to infiltrate agents for espionage, subversion, blackmail and other covert purposes. Undoubtedly, closer economic relations will make it possible for the Soviet countries to send more citizens abroad and in a sense every Soviet citizen abroad must be regarded as a potential spy, if not an agent. Moreover, whatever its other merits, a technical assistance program can be an excellent medium for influencing government officials and intellectual leaders by direct personal contacts. However, it is unlikely that the Soviets have in mind anything more than this kind of ideological penetration; using economic contacts for covert political work in many countries would be either superfluous or dangerously counter-productive.

In some cases, there are already well organized Communist parties to do this work -- as in Japan and Indonesia. In others -- such as Afghanistan -- border controls are so ineffective that no pretenses are needed; prominent Kabul merchants could just as well be in the pay of the Soviets without benefit of an aid program or Soviet trade connections. In still other cases where the internal security forces are already vigorous and alert to the threat of Communism -- as in India -- this might be courting an invitation to terminate the program. Where these risks are not present, there is not reason to doubt that economic contacts will be used for covert purposes, but it does seem very doubtful either that results of this kind would add significantly to the Soviet bloc's present capabilities for espionage and sabotage, or that trade, credits, or technical assistance on a large scale would be undertaken for this purpose alone.

V. ECONOMIC DIPLOMACY AND SOVIET FOREIGN POLICY

The foregoing analysis has shown first that Soviet economic foreign policy appears to be undergoing a transition from a policy of minimizing external trade toward a more active and confident involvement with non-Communist countries in trade, credits, and perhaps some outright technical and development assistance. It was suggested that there might very well be strong economic inducements in favor of such a departure arising out of growth and structural changes in the Soviet economy and a changed assessment of the economic advantages to the Soviet Union of international trade. The political uses of such expanded economic relations were then considered, and it was concluded that while the Soviet rulers probably hoped for some immediate propaganda and political gains for Communism and some disruption of Western security arrangements, they would not be justified in expecting to obtain, by these means alone, a large measure of manipulative control over the foreign or domestic policies of the non-Communist states involved.

Since it is not at all certain that the economic advantages of the new policy are sufficiently compelling to explain it, and since the use of economic relationships to obtain political influence and control is notoriously risky, it is necessary to look further to understand how the new economic diplomacy fits into the larger fabric of Soviet foreign policy. Without attempting a complete review of Soviet policy, a few observations may cast some light on the purposes and probable duration of this kind of diplomacy.

First of all it should be noted that even before the death of Stalin, the role of violence, of "armed struggle," in Communist strategy in colonial and former colonial areas had generally been subordinated to non violent froms of political action. The new regimes in the Philippines, Burma, Indonesia and India, when Communist tactics ran counter to nationalist interests, the new regimes acted forcibly to repress local Communist organizations and the parties switched to more peaceful programs. In Malaya, to be sure, where colonial rule continued, the use of violence and guerilla tactics persisted but even here the Communists have been negotiating with

the authorities for an amnesty and legalized status. In Vietnam the Communists had succeeded in capturing the leadership of strong nationalist elements sufficiently to employ armed force effectively to unseat the colonial power. But elsewhere the strategy called for Communists to collaborate on a broad basis with other social groups in "liquidating the remnants of colonialism and eliminating other Western influences." The purpose of this collaboration was to identify Communists with nationalist elements rather than with a foreign power, thus promoting "neutalism," and to assure these other groups that while the Communists ultimately hoped to establish a "people's democracy," this could be done without violence to -- or liquidation of -- any groups except those representing colonial interests.

As the new line unfolded, Communist theoretical literature and propaganda alike proclaimed the real independence of some of these new regimes, which until recently had been denounced as puppet states erected by their colonial masters. This recognition has undoubtedly been confirmed by the emergence at the Bandung conference, if not before, of a new grouping comprising the newly independent states of Asia, regarded as a "third area" and represented in Communist propaganda as leaning more to the USSR than to the West.

In the wake of these developments, the new Soviet economic foreign policies appear to be the counterpart on the diplomatic level of the new strategy for Communist parties. It may be taken for granted that the increased destructiveness of nuclear weapons has considerably reinforced the Soviet desire to avoid a general war with the United States and its allies. In the Soviet view, even the localized use of military force for conquest of new territory must involve two increasingly serious disabilities. One is the obvious danger that such wars may not easily be contained; the construction of defensive military alliances and bases on the perimeter of the Sino-Soviet bloc plus the indicated intention of the United States to employ atomic weapons for tactical purposes must have increased the apprehensions of Soviet policy makers on this score. The other danger is that new aggressions destroy the picture which Soviet diplomacy has in these last several years striven to build up, of a peaceful socialist state seeking to spread its influence only by peaceful means.

The Soviet Union might, of course, have built up this image precisely in order to be able to destroy it by some bold new conquest, but this would presuppose a willingness to disregard the military risks as well as the political ones. There may be situations which in the Soviet view do not involve either of these risks, and in which the bloc might well undertake aggressive action on a local scale. In general, however, these risks appear to be involved in most foreseeable situations, and it is probable that for all practical purposes in the present phase of the cold war the USSR has shelved the use of military force as an instrument of expansion. It may therefore be expected to concentrate its energies on other planes of activity: political, economic and psychological.

This course would have pronounced advantages for Soviet strategy. It invests the Soviet peace campaign with a semblance of truth, it undermines arrangements like the Baghdad Pact -- it promotes neutralism in Asia, and makes more difficult the development of collective security arrangements in that area. Finally, it helps to portray the USSR as a friendly and peaceful socialist state that wishes only to bring the blessings of economic progress to people in underdeveloped areas.

It may legitimately be objected that such a strategy throws out the baby with the bath water. In other words, if this analysis is correct, if Soviet diplomacy is aimed at making Soviet policy respectable, how can the expansionist aims of Soviet Communism be realized? Can Communism conquer if it becomes respectable? One indication of the answer to this question may be found in the recent pronouncements at the Twentieth Party Congress recognizing the disastrous character of atomic and nuclear warfare, asserting coexistence to be the only alternative, and suggesting that the triumph of Communism would come about less by military force than by the force of the ideas of Marx, Engels, and Lenin. These ideas are not without appeal to the intellectual leadership of many countries in Asia, who already have formulated the broad outlines of economic development programs through socialism (or at least state capitalism) rather than private capitalism. The persuasiveness of the Soviet economic model would be greatly enhanced in these areas if it were freed from association with Soviet military aggression. And the opportunities for local Communist parties to promote their new strategy of collaboration may be in inverse proportion to the extent that the parties are regarded as agents of a foreign power.[1] In other words, the aim of Soviet policy is now to play down those aggressive and subversive aspects of the Soviet system which made Communism distasteful to the regimes and ruling groups of South and Southeast Asia and to emphasize those aspects which constituted its appeal, i.e. opposition to colonialism and exemplification of techniques for rapid, independent economic development.

Thus while the ultimate goal is still world revolution, i.e., the total extension of Communist power, current policy evidently tends not so much toward the immediate subversion and conquest as to the neutralization of the countries at which it is directed and the reduction or elimination of Western influence. The proximate aim is to strengthen the impression of détente which resulted from the Summit Conference and to do so by persuading the countries of South and Southeast Asia that, far from having to fear the USSR, they may now begin to enjoy the benefits of expanded trade with the bloc and even of some economic assistance from it. In due time, Soviet leaders may very well expect that high rates of population growth and lagging economic development will combine to aggravate dissatisfaction with the existing social order and create new opportunities for Communist parties no longer regarded domestically as spies and saboteurs. Whether this expectation is justified is a question that would carry this analysis too far into the realm of prophecy.

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1. In India and perhaps elsewhere there is the possibility that suppression of the revolutionary aspects of Communism may reduce the vitality of the Communist party and subject it to internal disputes which will reduce its effectiveness in this situation. In any case the USSR has often shown its disregard for such consequences.